

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Melvindale, Michigan</u>	County Wayne
Audit Date December 31, 2005	Opinion Date April 28, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Melvindale, Michigan

**Financial Report
with Supplemental Information
December 31, 2005**

City of Melvindale, Michigan

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the City Council
City of Melvindale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Melvindale, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Melvindale, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Melvindale, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2006 on our consideration of the City of Melvindale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

April 28, 2006

City of Melvindale, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Melvindale, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005:

- State-shared revenue, our second largest revenue source, has been on a downward slope since 2000. Cumulatively, since 2000, the City has received approximately \$1.4 million less than expected. The City reacted by holding discretionary spending amounts to the same level as the prior year and delaying the filling of open personnel positions. State-shared revenue accounts for approximately 18 percent of the City's total General Fund revenue.
- Property taxes are the City's single largest source of revenue. The City's taxable value for 2005 was \$214,042,220, which represents an increase of approximately 7.6 percent from 2004. The City's operating, refuse, and library millage rates, however, were rolled back as required by the Headlee Amendment and Proposal A. Through Proposal A, growth on existing taxable value is limited to the Consumer Price Index or 5 percent, whichever is less.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2005 and 2004 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 2,613	\$ 1,881	\$ 946	\$ 904	\$ 3,559	\$ 2,785
Noncurrent assets	8,008	7,732	12,293	12,480	20,301	20,212
Total assets	10,621	9,613	13,239	13,384	23,860	22,997
Liabilities						
Current liabilities	2,322	2,068	1,192	939	3,514	3,007
Long-term liabilities	3,201	2,650	7,418	8,002	10,619	10,652
Total liabilities	5,523	4,718	8,610	8,941	14,133	13,659
Net Assets						
Invested in capital assets - Net of related debt	5,892	5,878	4,169	4,046	10,061	9,924
Restricted	599	438	463	431	1,062	869
Unrestricted deficit	(1,393)	(1,421)	(3)	(34)	(1,396)	(1,455)
Total net assets	<u>\$ 5,098</u>	<u>\$ 4,895</u>	<u>\$ 4,629</u>	<u>\$ 4,443</u>	<u>\$ 9,727</u>	<u>\$ 9,338</u>

The City has combined net assets of approximately \$9.7 million in 2005 and \$9.3 million in 2004. Business-type activities comprise approximately \$4.6 million of the total net assets in 2005 and approximately \$4.4 million in 2004. The significant changes were:

- The government unrestricted net deficit remained relatively unchanged at a deficit of approximately \$1.4 million. There was a slight decrease in the deficit due to the reversal of the property tax tribunal liability, as well as an offsetting increase due to the rise of public safety overtime costs.
- The business-type unrestricted net deficit decreased approximately \$31,000 to a deficit of approximately \$3,000. Of that decrease, \$382,000 was due to an increase in operating income in the Water and Sewer Fund and the offset to that increase was the Ice Arena Fund expenses exceeding operating income by approximately \$150,000.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the years ended December 31, 2005 and 2004 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 2,774	\$ 2,474	\$ 3,888	\$ 3,541	\$ 6,662	\$ 6,015
Operating grants and contributions	928	760	-	-	928	760
Capital grants and contributions	165	153	-	-	165	153
General revenue:						
Property taxes	4,808	4,560	-	-	4,808	4,560
State-shared revenue	1,699	1,699	-	-	1,699	1,699
Unrestricted investment earnings	41	11	-	-	41	11
Franchise fees	124	98	-	-	124	98
Miscellaneous and other revenue	-	237	-	24	-	261
Total revenue	10,539	9,992	3,888	3,565	14,427	13,557
Program Expenses						
General government	1,100	3,398	-	-	1,100	3,398
Public safety	6,282	4,562	-	-	6,282	4,562
Public works	2,039	1,883	-	-	2,039	1,883
Health and welfare	144	123	-	-	144	123
Community and economic development	343	208	-	-	343	208
Recreation and culture	318	267	-	-	318	267
Interest on long-term debt	110	108	-	-	110	108
Water and sewer	-	-	2,840	2,767	2,840	2,767
Ice arena	-	-	861	957	861	957
Total program expenses	10,336	10,549	3,701	3,724	14,037	14,273
Change in Net Assets	\$ 203	\$ (557)	\$ 187	\$ (159)	\$ 390	\$ (716)

Governmental Activities

The City's total governmental revenues increased by approximately \$547,000 from 2004 to 2005. Of that increase, approximately \$250,000 related to increased revenues from advanced life support services, \$250,000 related to increased grant funding, and increased property tax revenue accounted for the majority of the remainder of the 2005 increase.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

Expenses in total remained relatively consistent from 2004 to 2005. There was a significant increase in public safety costs (police and fire) by approximately \$1,720,000 from 2004 to 2005. This was due mainly to overtime costs, early retirement payouts, and increased allocations related to compensated absences and health care costs. To offset this, the City closely monitored its spending in all other areas, particularly general government, which decreased approximately \$2 million. A portion of that decrease can be attributed to the reversal of a contingency related to a property tax appeal which was settled in the current year with no additional liability to the City.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Ice Arena Fund. The City provides water to residents from the Detroit water system. Both business-type activities had positive operating income. The Water and Sewer Fund had approximately \$570,000 of operating income in 2005 as compared to operating income of \$187,000 in 2004. Net assets increased approximately \$336,000 after nonoperating expenses. This is due to the increase in rates in the later portion of the year as well as tightened discretionary spending. The Ice Arena Fund had approximately \$50,000 of operating income in 2005 as compared to operating income of \$76,000 in 2004. Net assets decreased approximately \$150,000. This decrease in net assets was due to significantly lower rental income in 2005.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City of Melvindale Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, the Water and Sewer Fund, and the Ice Arena Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$3,776,000 in 2005, an increase of approximately \$283,000 over 2004, and represents approximately 40 percent of the total General Fund expenditures. The entire cost of the police and fire departments is funded by general revenue sources of the General Fund. The General Fund also contributed approximately \$1,300,000 to employee health care, which represented an increase of approximately \$100,000 over 2004. Health care represents approximately 13.9 percent of the General Fund expenditures.

The overall General Fund performance for 2005 resulted in a decrease of \$30,571 in fund balance. This is a significant improvement from the decrease in fund balance of \$899,469 in 2004.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The most significant expenditure variances from budget for 2005 include the following:

- Other revenue exceeded budgeted amount due to the City obtaining financing for the purchase of the fire truck.
- Expenditures for police and fire exceeded budget as a result of an increase in the amount of overtime in the current year over what was anticipated, as well as the purchase of the new fire truck. Also included in police expense in 2005 is the accumulated payout amounts for the five officers who retired during the year.
- Contributions to other funds exceeded budget due to health care insurance expense being greater than expected in the current year.
- Contingency expenditures from 2004 were reversed due to the settlement of the lawsuit between the City and the utility companies related to personal property tax multiplier tables in the current year, resulting in no additional liability for the City.

Capital Assets and Debt Administration

The City's investment in capital assets continued to be reduced significantly in response to the reduction in revenue and increased health care and other costs. A five-year capital asset acquisition plan has been established to identify needed purchases and effectively plan for their costs.

Economic Factors and Next Year's Budgets and Rates

The future remains challenging for the City of Melvindale. The City's budget for next year will show the effects of cost cutting needed to reduce the deficit. The City has created a deficit reduction task force to present a plan to eliminate the deficit within the required State of Michigan-mandated three-year period.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the finance director or city administrator's office.

City of Melvindale, Michigan

Statement of Net Assets December 31, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 901,033	\$ 127,709	\$ 1,028,742	\$ 742,706
Receivables - Net of allowance of \$205,000	666,601	1,259,839	1,926,440	36,296
Internal balances	484,531	(484,531)	-	-
Accounts receivable from primary government (Note 6)	-	-	-	107,176
Due from other governmental units	561,322	-	561,322	-
Inventories	-	-	-	46,899
Prepaid costs and other assets	-	43,311	43,311	-
Long-term advance to (from) other funds	258,842	(258,842)	-	-
Restricted assets (Note 8)	-	1,298,069	1,298,069	-
Nondepreciable capital assets - Net (Note 5)	911,906	264,392	1,176,298	200,000
Depreciable capital assets - Net (Note 5)	6,836,927	10,989,473	17,826,400	6,019,177
Total assets	10,621,162	13,239,420	23,860,582	7,152,254
Liabilities				
Accounts payable	1,234,075	596,289	1,830,364	102,809
Accrued and other liabilities	605,316	48,614	653,930	104,566
Accounts payable to component units (Note 6)	107,176	-	107,176	-
Noncurrent liabilities:				
Compensated absences due within one year	245,400	41,299	286,699	-
Debt obligations due within one year (Note 7)	130,103	506,250	636,353	-
Accrued liabilities due in more than one year	714,158	-	714,158	-
Compensated absences due in more than one year	759,868	4,369	764,237	-
Debt obligations due in more than one year (Note 7)	1,726,686	7,413,632	9,140,318	-
Total liabilities	5,522,782	8,610,453	14,133,235	207,375
Net Assets				
Invested in capital assets - Net of related debt	5,892,044	4,168,831	10,060,875	6,219,177
Restricted:				
Streets and highways	298,162	-	298,162	-
Grants and property taxes	300,691	-	300,691	-
Covenant restriction (Note 8)	-	463,221	463,221	-
Unrestricted	(1,392,517)	(3,085)	(1,395,602)	725,702
Total net assets	\$ 5,098,380	\$ 4,628,967	\$ 9,727,347	\$ 6,944,879

City of Melvindale, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,100,372	\$ 356,040	\$ -	\$ 10,472
Public safety	6,281,515	1,655,909	138,962	-
Public works	2,039,097	343,861	559,062	68,724
Health and welfare	143,800	-	-	-
Community and economic development	343,292	107,819	229,916	85,626
Recreation and culture	318,395	310,287	-	-
Interest on long-term debt	110,098	-	-	-
Total governmental activities	10,336,569	2,773,916	927,940	164,822
Business-type activities:				
Water and sewer	2,840,303	3,176,572	-	-
Ice arena	861,363	711,695	-	-
Total primary government	\$ 14,038,235	\$ 6,662,183	\$ 927,940	\$ 164,822
Component units:				
Housing Commission	\$ 2,014,870	\$ 583,983	\$ 508,488	\$ 846,487
Economic Development Corporation	28,896	26,484	-	-
Downtown Development Authority	118,192	-	-	8,156
Total component units	\$ 2,161,958	\$ 610,467	\$ 508,488	\$ 854,643
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Loss on disposal of assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (733,860)	\$ -	\$ (733,860)	\$ -
(4,486,644)	-	(4,486,644)	-
(1,067,450)	-	(1,067,450)	-
(143,800)	-	(143,800)	-
80,069	-	80,069	-
(8,108)	-	(8,108)	-
(110,098)	-	(110,098)	-
(6,469,891)	-	(6,469,891)	-
-	336,269	336,269	-
-	(149,668)	(149,668)	-
(6,469,891)	186,601	(6,283,290)	-
-	-	-	(75,912)
-	-	-	(2,412)
-	-	-	(110,036)
-	-	-	(188,360)
4,808,455	-	4,808,455	158,159
1,699,251	-	1,699,251	-
41,499	-	41,499	14,743
123,548	-	123,548	-
25,033	-	25,033	-
(24,837)	-	(24,837)	-
6,672,949	-	6,672,949	172,902
203,058	186,601	389,659	(15,458)
4,895,322	4,442,366	9,337,688	6,960,337
\$ 5,098,380	\$ 4,628,967	\$ 9,727,347	\$ 6,944,879

City of Melvindale, Michigan

Governmental Funds Balance Sheet December 31, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 290,215	\$ 609,530	\$ 899,745
Receivables:			
Taxes	762,557	34,134	796,691
Other	74,910	-	74,910
Due from other funds (Note 6)	764,980	270,748	1,035,728
Long-term advance to other funds (Note 6)	258,842	-	258,842
Due from other governmental units	387,665	173,657	561,322
Total assets	<u>\$ 2,539,169</u>	<u>\$ 1,088,069</u>	<u>\$ 3,627,238</u>
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable	\$ 732,687	\$ 130,633	\$ 863,320
Accrued and other liabilities	589,149	1,150	590,299
Due to other funds (Note 6)	1,310,397	321,848	1,632,245
Accounts payable to component units	102,298	4,878	107,176
Deferred revenue (Note 4)	645,917	88,034	733,951
Total liabilities	3,380,448	546,543	3,926,991
Fund Balances (Deficit)			
Reserved for:			
Advance to Enterprise Fund	258,842	-	258,842
Grants	-	94,656	94,656
Unreserved, reported in:			
General Fund	(1,100,121)	-	(1,100,121)
Special Revenue Funds	-	446,870	446,870
Total fund balances (deficit)	<u>(841,279)</u>	<u>541,526</u>	<u>(299,753)</u>
Total liabilities and fund balances (deficit)	<u>\$ 2,539,169</u>	<u>\$ 1,088,069</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	7,748,833
Other receivables are expected to be collected over several years and are not available to pay for current year expenditures (net of allowances)	511,357
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Compensated absences	(1,005,268)
Long-term debt and accrued interest	(1,856,789)
Net assets of governmental activities	<u>\$ 5,098,380</u>

City of Melvindale, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended December 31, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 4,857,055	\$ 199,592	\$ 5,056,647
Licenses and permits	359,207	-	359,207
Federal grants	-	345,639	345,639
State sources	1,785,761	552,596	2,338,357
Charges for services	839,725	-	839,725
Fines and forfeitures	1,203,372	-	1,203,372
Interest and rentals	102,057	8,404	110,461
Other	129,418	137,604	267,022
	<u>9,276,595</u>	<u>1,243,835</u>	<u>10,520,430</u>
Expenditures			
Community maintenance and development	-	264,017	264,017
General government	1,676,950	-	1,676,950
Public safety	3,776,451	101,180	3,877,631
Public works	1,267,920	446,366	1,714,286
Health and welfare	61,465	-	61,465
Recreation and culture	65,926	220,274	286,200
Employee benefits and insurance	2,498,813	-	2,498,813
Debt service	-	223,456	223,456
	<u>9,347,525</u>	<u>1,255,293</u>	<u>10,602,818</u>
Excess Expenditures Over Revenue	(70,930)	(11,458)	(82,388)
Other Financing Sources (Uses)			
Transfers in (Note 6)	-	351,456	351,456
Transfers out (Note 6)	(175,006)	(176,450)	(351,456)
Proceeds from installment loan	215,365	-	215,365
	<u>40,359</u>	<u>175,006</u>	<u>215,365</u>
Net Change in Fund Balances	(30,571)	163,548	132,977
Fund Balances (Deficit) - Beginning of year	<u>(810,708)</u>	<u>377,978</u>	<u>(432,730)</u>
Fund Balances (Deficit) - End of year	<u><u>\$ (841,279)</u></u>	<u><u>\$ 541,526</u></u>	<u><u>\$ (299,753)</u></u>

City of Melvindale, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 132,977**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	427,262
Capital contribution from DDA is not a current financial resource	68,724
The proceeds from sale of capital assets are reported net of the carrying value of the assets on the government-wide statements	(24,837)
Depreciation expense is not reported in the governmental funds	(354,900)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(30,153)
Proceeds from the issuance of long-term debt are reported as revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(215,365)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	52,500
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	146,850

Change in Net Assets of Governmental Activities **\$ 203,058**

City of Melvindale, Michigan

Proprietary Funds Statement of Net Assets December 31, 2005

	Enterprise - Water and Sewer Fund	Enterprise - Ice Arena Fund	Total Enterprise Funds	Internal Service Fund - Health Care
Assets				
Current assets:				
Cash and cash equivalents	\$ 124,974	\$ 2,735	\$ 127,709	\$ 1,288
Receivables - Customers	1,259,839	-	1,259,839	-
Due from other funds (Note 6)	-	-	-	1,081,048
Prepaid costs and other assets	43,311	-	43,311	-
Total current assets	1,428,124	2,735	1,430,859	1,082,336
Noncurrent assets:				
Long-term advance to other funds (Note 6)	180,185	-	180,185	-
Restricted assets	1,298,069	-	1,298,069	-
Capital assets	7,208,836	4,045,029	11,253,865	-
Total noncurrent assets	8,687,090	4,045,029	12,732,119	-
Total assets	10,115,214	4,047,764	14,162,978	1,082,336
Liabilities				
Current liabilities:				
Accounts payable	538,914	57,375	596,289	370,755
Accrued and other liabilities	72,012	22,270	94,282	711,581
Due to other funds - Current portion (Note 6)	434,531	50,000	484,531	-
Current portion of long-term debt	360,000	146,250	506,250	-
Total current liabilities	1,405,457	275,895	1,681,352	1,082,336
Noncurrent liabilities:				
Long-term advances from other funds (Note 6)	-	439,027	439,027	-
Long-term debt - Net of current portion	4,791,132	2,622,500	7,413,632	-
Total noncurrent liabilities	4,791,132	3,061,527	7,852,659	-
Total liabilities	6,196,589	3,337,422	9,534,011	1,082,336
Net Assets				
Investment in capital assets - Net of related debt	2,892,552	1,276,279	4,168,831	-
Restricted	463,221	-	463,221	-
Unrestricted	562,852	(565,937)	(3,085)	-
Total net assets	\$ 3,918,625	\$ 710,342	\$ 4,628,967	\$ -

City of Melvindale, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Enterprise - Water and Sewer Fund	Enterprise - Ice Arena Fund	Total Enterprise Funds	Internal Service Fund - Health Care
Operating Revenue				
Sale of water	\$ 1,452,151	\$ -	\$ 1,452,151	\$ -
Sewage disposal charges	1,419,751	-	1,419,751	-
Charges for services and other	276,654	711,321	987,975	1,740,432
Total operating revenue	3,148,556	711,321	3,859,877	1,740,432
Operating Expenses				
Cost of water purchased	457,578	-	457,578	-
Cost of sewage treatment	920,505	-	920,505	-
Operation and maintenance	328,955	294,935	623,890	-
Billing and administrative costs	609,372	277,141	886,513	-
Depreciation and amortization	262,583	89,125	351,708	-
Employee insurance	-	-	-	1,720,445
Total operating expenses	2,578,993	661,201	3,240,194	1,720,445
Operating Income	569,563	50,120	619,683	19,987
Nonoperating Revenue (Expense)				
Investment income	28,016	-	28,016	-
Interest expense	(261,310)	(199,788)	(461,098)	(19,987)
Total nonoperating expense	(233,294)	(199,788)	(433,082)	(19,987)
Change in Net Assets	336,269	(149,668)	186,601	-
Net Assets - Beginning of year	3,582,356	860,010	4,442,366	-
Net Assets - End of year	<u>\$ 3,918,625</u>	<u>\$ 710,342</u>	<u>\$ 4,628,967</u>	<u>\$ -</u>

City of Melvindale, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2005

	Enterprise - Water and Sewer Fund	Enterprise - Ice Arena Fund	Internal Service Fund - Health Care
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,718,375	\$ 711,321	\$ 1,753,901
Payments to suppliers	(1,284,357)	(281,910)	-
Payments to employees	(979,538)	(260,035)	-
Internal activity - Payments from other funds	268,044	66,898	(115,100)
Claims paid	-	-	(1,720,445)
Other receipts	272,085	-	102,919
Net cash provided by operating activities	994,609	236,274	21,275
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(254,848)	-	-
Interest paid on reserve	-	-	(19,987)
Principal and interest paid on capital debt	(574,010)	(233,539)	-
Net cash used in capital and related financing activities	(828,858)	(233,539)	(19,987)
Cash Flows from Investing Activities - Interest received on investments	28,016	-	-
Net Increase in Cash and Cash Equivalents	193,767	2,735	1,288
Cash and Cash Equivalents - Beginning of year	1,229,276	-	-
Cash and Cash Equivalents - End of year	<u>\$ 1,423,043</u>	<u>\$ 2,735</u>	<u>\$ 1,288</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 124,974	\$ 2,735	\$ 1,288
Restricted investments (Note 3)	1,298,069	-	-
Total cash and cash equivalents	<u>\$ 1,423,043</u>	<u>\$ 2,735</u>	<u>\$ 1,288</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 569,563	\$ 50,120	\$ 19,987
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	262,583	89,125	-
Changes in assets and liabilities:			
Receivables	(164,070)	8,034	33,456
Due from other funds	50,405	-	(826,681)
Other assets	5,974	-	-
Accounts payable	93,726	13,025	82,932
Due to other funds	217,639	58,864	-
Accrued and other liabilities	(41,211)	17,106	711,581
Net cash provided by operating activities	<u>\$ 994,609</u>	<u>\$ 236,274</u>	<u>\$ 21,275</u>

City of Melvindale, Michigan

Fiduciary Funds Statement of Net Assets December 31, 2005

	Trust Fund - Policemen and Firemen Retirement System I	Agency Fund - Tax Collection
Assets		
Cash and cash equivalents	\$ 124,285	\$ -
Investments:		
Corporate bonds	1,279,191	-
Common and preferred stock	1,879,823	-
Bank investment pool funds and mutual funds	146,877	806,443
Guaranteed insurance contracts	60,339	-
Life insurance policies	3,372,407	-
Forwards and futures contracts	351,804	-
Foreign stock investment pools	89,455	-
Deposits	714,158	-
Taxes receivable	1,341,726	-
Total assets	9,360,065	<u><u>\$ 806,443</u></u>
Liabilities		
Accounts payable	1,941	\$ -
Due to other governmental units	-	806,443
Total liabilities	1,941	<u><u>\$ 806,443</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 9,358,124</u></u>	

City of Melvindale, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended December 31, 2005

	Trust Fund - Policemen and Firemen Retirement System I
Additions	
Investment income:	
Interest and dividends	\$ 114,627
Net increase in cash surrender value of life insurance policies	3,320
Realized and unrealized gain on investments	136,880
Less investment expenses	<u>(13,778)</u>
Net investment income	241,049
Employer contributions	<u>1,520,300</u>
Total additions	1,761,349
Deductions - Benefit payments	<u>1,240,164</u>
Net Increase	521,185
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>8,836,939</u>
End of year	<u><u>\$ 9,358,124</u></u>

City of Melvindale, Michigan

Component Units Statement of Net Assets December 31, 2005

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
Assets				
Cash and investments	\$ 579,726	\$ 50,124	\$ 112,856	\$ 742,706
Receivables	36,296	-	-	36,296
Receivable from primary government	-	-	107,176	107,176
Inventories	13,781	-	33,118	46,899
Capital assets	6,219,177	-	-	6,219,177
Total assets	6,848,980	50,124	253,150	7,152,254
Liabilities				
Accounts payable	102,549	249	11	102,809
Accrued and other liabilities	67,438	-	-	67,438
Due to other governmental units	37,128	-	-	37,128
Total liabilities	207,115	249	11	207,375
Net Assets				
Investment in capital assets - Net of related debt	6,219,177	-	-	6,219,177
Unrestricted	422,688	49,875	253,139	725,702
Total net assets	<u>\$ 6,641,865</u>	<u>\$ 49,875</u>	<u>\$ 253,139</u>	<u>\$ 6,944,879</u>

City of Melvindale, Michigan

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Housing Commission - Senior Citizen Housing Project	\$ 2,014,870	\$ 583,983	\$ 508,488
Economic Development Corporation - Public works	28,896	26,484	-
Downtown Development Authority: Public works	49,377	-	-
Contribution to City	68,815	-	-
Total Downtown Development Authority	118,192	-	-
Total component units	<u>\$ 2,161,958</u>	<u>\$ 610,467</u>	<u>\$ 508,488</u>

General Revenues

Capture taxes

Interest and other

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Component Units
Statement of Activities
Year Ended December 31, 2005

Net (Expense) Revenue and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ (75,912)	\$ -	\$ -	\$ (75,912)
-	(2,412)	-	(2,412)
-	-	(41,221)	(41,221)
-	-	(68,815)	(68,815)
-	-	(110,036)	(110,036)
(75,912)	(2,412)	(110,036)	(188,360)
-	-	158,159	158,159
11,963	1,270	1,510	14,743
11,963	1,270	159,669	172,902
(63,949)	(1,142)	49,633	(15,458)
6,705,814	51,017	203,506	6,960,337
<u>\$ 6,641,865</u>	<u>\$ 49,875</u>	<u>\$ 253,139</u>	<u>\$ 6,944,879</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Melvindale, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Melvindale, Michigan:

Reporting Entity

The City is governed by an elected six-member council and an elected mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The Policemen and Firemen Retirement System I has been blended into the City's financial statements. The Policemen and Firemen Retirement System I is governed by a three-member board that consists of a combination of participants in the system and individuals chosen by the mayor and City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

The City of Melvindale Building Authority was formed for the purpose of constructing public facilities financed through the issuance of Building Authority bonds as provided by Public Act 31 of 1948. The Building Authority Board is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct certain City public buildings.

Discretely Presented Component Units

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district and to promote economic growth within the downtown district. The DDA's governing body, which consists of 11 individuals, is appointed by the mayor, subject to approval of the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA's administrative offices are located at 3100 Oakwood Boulevard, Melvindale, Michigan.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City. The EDC's governing body, which consists of nine individuals, is appointed by the mayor, subject to approval of the City Council. The EDC's administrative offices are located at 3100 Oakwood Boulevard, Melvindale, Michigan.

The Housing Commission was created to provide public housing to senior citizens and other residents of the City. The Housing Commission also administers the federally funded housing certificate program. The Housing Commission's governing body, which consists of five individuals, is selected by the mayor. The Housing Commission is located at 3501 Oakwood Boulevard, Melvindale, Michigan.

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the City limits. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a board that is appointed by the mayor and confirmed by the City Council. No activity related to tax revenue capture occurred during the year ended December 31, 2005.

Separate financial statements for the above discretely presented component units are not prepared.

Jointly Governed Organizations

Jointly governed organizations are discussed in Note 14.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; therefore, receivables have been recorded for these, along with a "deferred revenue" liability.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution and sewage collection systems.

Ice Arena Fund - The Ice Arena Fund accounts for the activity of the John Kessey Ice Arena, which is primarily the revenue related to charges for services and rentals along with the expenses of maintaining and operating the John Kessey Ice Arena.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City. The City's Internal Service Fund is used to account for current health care coverage provided for City employees.

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's defined benefit pension plan, the Policemen and Firemen Retirement System I. The plan accumulates resources for pension benefit payments to qualified employees.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City's Agency Fund is the Tax Collection Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and the ice arena function of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) and the cost of infrastructure as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices, except for the life insurance policies, which are stated at cash surrender value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Properties are assessed as of December 31 of each year. The related taxes are billed on July 1 and become a lien on December 1 of the following year, at which time penalties and interest are assessed. The judgment levy for the Policemen and Firemen Pension System I is levied on December 1 each year.

The City's 2005 tax is levied and collectible on July 1, 2005, and is recognized as revenue in the year ended December 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$214,042,220, on which taxes levied consisted of 19.4685 mills for operating purposes, 2.9201 mills for garbage and rubbish services, 0.9732 mills for library services, and 7 mills for the Policemen and Firemen Pension System I judgment levy. This resulted in approximately \$4,800,000 for operating and garbage collection purposes, \$208,000 for library purposes, and \$1,500,000 for the Policemen and Firemen Pension System I judgment levy. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Fiduciary Fund financial statements as tax revenue.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Real estate inventories of the component units are valued at the lower of cost (specific identification including demolition cost) or market.

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for debt service. In addition, unspent bond proceeds in the Enterprise Fund are required to be set aside for construction. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 25 years
Water and sewer facilities	20 to 45 years
Buildings and improvements	20 to 50 years
Machinery and equipment	2 to 35 years
Furniture and fixtures	2 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall is as follows:

Shortfall at January 1, 2005			\$ (325,577)
Current year building permit revenue			198,619
Related expenses:			
Direct costs	\$ 269,524		
Estimated indirect costs	<u>44,406</u>	<u>313,930</u>	
Current year shortfall			<u>(115,311)</u>
Cumulative shortfall at December 31, 2005			<u>\$ (440,888)</u>

Noncompliance with Legal or Contractual Provisions - As of December 31, 2005, the City had not adopted a formal policy to utilize credit cards. A formal policy is required under Public Act 266 of 1995. The City adopted its credit card policy during 2006.

Fund Deficits - The City has a deficit in the General Fund, Community Development Block Grant Fund, and the Ice Arena Fund at December 31, 2005. The deficit in the Community Development Block Grant Fund is due to revenue that was not received within 60 days of year end. The receivable for these monies was recorded along with the corresponding deferred revenue at December 31, 2005.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

The City has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the items described above, except for repurchase agreements and obligations of the State of Michigan or its political subdivisions. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$443,244 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had no bank deposits that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the City's pension funds had \$263,482 invested in U.S. Treasury securities with an average maturity of one year. In addition, the City's pension funds had \$1,167,528 invested in corporate bonds with an average maturity of 11.79 years.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
General government - Bank investment pools	\$ 2,828,118	Not rated	N/A
General government - Pension funds:			
Bank investment pools	681,068	Not rated	N/A
Bank investment pools	8,046	AAAm	S&P
Corporate bonds	479,001	AA	S&P
Corporate bonds	4,060	AA-	S&P
Corporate bonds	20,468	A+	S&P
Corporate bonds	12,970	A-	S&P
Corporate bonds	9,477	A	S&P
Corporate bonds	8,292	BBB+	S&P
Corporate bonds	14,264	BBB	S&P
Corporate bonds	26,488	BBB-	S&P
Corporate bonds	3,990	BB+	S&P
Corporate bonds	15,401	BB-	S&P
Corporate bonds	2,153	B	S&P
Corporate bonds	271,350	Not rated	N/A
Corporate bonds	97,173	AAA	Moody's
Corporate bonds	55,334	AA	Moody's
Corporate bonds	97,173	A	Moody's
Corporate bonds	42,288	BAA	Moody's
Life insurance contracts	3,277,717	AA	S&P
Life insurance contracts	94,690	A	S&P

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments (Continued)

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Component units - Bank investment pools	\$ 663,709	Not rated	N/A

Concentration of Credit Risk

The City's Policemen and Firemen Retirement System places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in life insurance contracts; these investments are 47 percent of pension fund investments.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U. S. dollar value as a result of changes in foreign currency exchange rates. The pension system does not restrict the amount of investments in foreign currency. The following securities are subject to foreign currency risk:

<u>Fair Value of Foreign Stocks in U.S. Dollars</u>	<u>Country</u>
\$ 17,139	Japan
72,317	Other

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Governmental Activities - Unavailable</u>
Delinquent personal property taxes	\$ 299,214
Delinquent real property taxes	376,006
Grants receivable	<u>58,731</u>
Total	<u>\$ 733,951</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance January 1, 2005	Additions	Disposals and Adjustments	December 31, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 911,906	\$ -	\$ -	\$ 911,906
Capital assets being depreciated:				
Roads and sidewalks	3,424,552	93,127	-	3,517,679
Buildings and improvements	3,349,216	-	-	3,349,216
Machinery and equipment	4,696,627	402,859	277,460	4,822,026
Subtotal	11,470,395	495,986	277,460	11,688,921
Accumulated depreciation:				
Roads and sidewalks	1,642,496	117,666	-	1,760,162
Buildings and improvements	1,178,406	73,557	-	1,251,963
Machinery and equipment	1,928,816	163,676	252,623	1,839,869
Subtotal	4,749,718	354,899	252,623	4,851,994
Net capital assets being depreciated	6,720,677	141,087	24,837	6,836,927
Net capital assets	<u>\$ 7,632,583</u>	<u>\$ 141,087</u>	<u>\$ 24,837</u>	<u>\$ 7,748,833</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets (Continued)

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Business-type Activities				
Capital assets not being depreciated -				
Construction in progress	\$ 9,544	\$ 254,848	\$ -	\$ 264,392
Capital assets being depreciated:				
Water and sewer facilities	6,136,690	-	-	6,136,690
Furniture and fixtures	341,870	-	-	341,870
Machinery and equipment	1,057,214	-	-	1,057,214
Building and improvements	7,944,564	-	-	7,944,564
Subtotal	15,480,338	-	-	15,480,338
Accumulated depreciation:				
Mains - Water	1,634,188	127,053	-	1,761,241
Furniture and fixtures	248,095	26,662	-	274,757
Machinery and equipment	833,421	34,769	-	868,190
Buildings	1,423,454	163,223	-	1,586,677
Subtotal	4,139,158	351,707	-	4,490,865
Net capital assets being depreciated	11,341,180	(351,707)	-	10,989,473
Net capital assets	<u>\$ 11,350,724</u>	<u>\$ (96,859)</u>	<u>\$ -</u>	<u>\$ 11,253,865</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Melvindale's component units for the year was as follows:

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Housing Commission				
Capital assets not being depreciated -				
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Capital assets being depreciated:				
Machinery and equipment	973,478	-	41,566	931,912
Building and improvements	9,651,749	235,391	46,578	9,840,562
Subtotal	10,625,227	235,391	88,144	10,772,474
Accumulated depreciation:				
Machinery and equipment	592,648	52,231	34,107	610,772
Building and improvements	3,886,525	276,087	20,087	4,142,525
Subtotal	4,479,173	328,318	54,194	4,753,297
Net capital assets being depreciated	6,146,054	(92,927)	33,950	6,019,177
Net capital assets	\$ 6,346,054	\$ (92,927)	\$ 33,950	\$ 6,219,177

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 32,077
Public safety	97,503
Public works	166,734
Health and welfare	26,418
Recreation and culture	32,167
Total governmental activities	\$ 354,899
Business-type activities:	
Water and sewer	\$ 262,583
Ice arena	89,124
Total business-type activities	\$ 351,707
Component units - Housing Commission	\$ 328,318

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund (major fund)	Water and Sewer Fund (major fund)	\$ 434,531
	Ice Arena Fund (major fund)	50,000
	Nonmajor funds	<u>280,449</u>
	Total General Fund	764,980
Nonmajor governmental funds	General Fund (major fund)	229,349
	Nonmajor governmental funds	<u>41,399</u>
	Total nonmajor governmental funds	270,748
Internal Service Fund	General Fund (major fund)	<u>1,081,048</u>
	Total	<u><u>\$ 2,116,776</u></u>
Advances from/to Other Funds		
General Fund (major fund)	Ice Arena Fund (major fund)	\$ 258,842
Water and Sewer Fund (major fund)	Ice Arena Fund (major fund)	<u>180,185</u>
		<u><u>\$ 439,027</u></u>
Due to/from Primary Government and Component Units		
Receivable Fund	Payable Fund	Amount
Downtown Development Authority	Primary government - General Fund	\$ 102,298
Downtown Development Authority	Primary government - Other nonmajor funds	<u>4,878</u>
	Total Downtown Development Authority	<u><u>\$ 107,176</u></u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfer Out		
	Nonmajor		
	Governmental		
	General Fund	Funds	Total
Transfers in - Nonmajor governmental funds	\$ 175,006	\$ 176,450	\$ 351,456

The transfer from the General Fund to the Debt Service Fund of \$144,696 represents the movement of resources to be used to service general obligation debt. The Major Streets Fund transferred \$97,690 and the General Fund also transferred \$30,310 to the Local Street Fund where the funds were when spent. The Community Development Block Grant Fund transferred \$78,760 to the Debt Service Fund for a debt service payment.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
2000 Building Authority Bonds	5.50% - 5.80%	\$40,000 - \$90,000	\$ 690,000	\$ -	\$ (40,000)	\$ 650,000	\$ 40,000
Amount of issue: \$800,000							
Maturing through 2015							
2003 Building Authority Refunding Bonds	2.00% - 4.40%	\$12,500 - \$77,500	995,000	-	(12,500)	982,500	50,179
Amount of issue: \$1,005,000							
Maturing through 2022							
Installment purchase agreements:							
Ambulance agreement	5.51%	\$43,595	43,595		(43,595)	-	-
Amount of issue: \$117,000							
Maturing through 2005							
Telephone system agreement	4.35%	\$8,923 - \$17,263	26,187	-	(17,263)	8,924	8,924
Amount of issue: \$81,139							
Maturing through 2006							
Fire Truck agreement	4.55%	\$17,000 - \$31,000	-	215,365	-	215,365	31,000
Amount of issue: \$215,365							
Maturing through 2014							
Total governmental activities			<u>\$ 1,754,782</u>	<u>\$ 215,365</u>	<u>\$ (113,358)</u>	<u>\$ 1,856,789</u>	<u>\$ 130,103</u>
Business-type Activities							
1996 Water Supply and Sewage Disposal							
System Revenue Refunding Bonds	4.70% - 5.35%	\$200,000 - \$300,000	\$ 1,710,000	\$ -	\$ (200,000)	\$ 1,510,000	\$ 220,000
Amount of issue: \$2,695,000							
Maturing through 2011							
1997 Water Supply and Sewage Disposal							
System Revenue Bonds	5.00% - 5.70%	\$50,000 - \$150,000	1,275,000	-	(50,000)	1,225,000	50,000
Amount of issue: \$1,500,000							
Maturing through 2016							
1998 Water Supply and Sewage Disposal							
System Revenue Bonds	4.20% - 5.10%	\$25,000 - \$100,000	775,000	-	(25,000)	750,000	25,000
Amount of issue: \$900,000							
Maturing through 2018							
1999 Water Supply and Sewage Disposal							
System Revenue Bonds	2.50%	\$50,000 - \$70,000	875,000	-	(50,000)	825,000	50,000
Amount of issue: \$1,100,000							
Maturing through 2019							
2001 Water Supply and Sewage Disposal							
System Revenue Bonds	5.00% - 7.00%	\$10,000 - \$100,000	975,000	-	(10,000)	965,000	15,000
Amount of issue: \$995,000							
Maturing through 2021							
2003 Building Authority Refunding Bonds	1.25% - 4.40%	\$50,000 - \$310,000	2,870,000	-	(37,500)	2,832,500	146,250
Amount of issue: \$2,900,000							
Maturing through 2022							
Subtotal business-type activities			<u>8,480,000</u>	<u>-</u>	<u>(372,500)</u>	<u>8,107,500</u>	<u>506,250</u>
Less deferred charge on refunding	N/A	N/A	<u>(213,668)</u>	<u>-</u>	<u>26,050</u>	<u>(187,618)</u>	<u>-</u>
Total business-type activities			<u>\$ 8,266,332</u>	<u>\$ -</u>	<u>\$ (346,450)</u>	<u>\$ 7,919,882</u>	<u>\$ 506,250</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations (excluding amortization of bond issuance costs and discounts) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 130,103	\$ 78,430	\$ 208,533	\$ 506,250	\$ 345,815	\$ 852,065
2007	115,899	81,541	197,440	521,101	325,818	846,919
2008	120,899	72,058	192,957	541,101	304,264	845,365
2009	137,046	67,050	204,096	610,954	280,207	891,161
2010	136,759	61,067	197,826	627,241	252,671	879,912
2011-2015	801,060	199,710	1,000,770	2,812,305	873,393	3,685,698
2016-2020	312,695	57,114	369,809	2,097,305	300,244	2,397,549
2021-2024	102,328	8,843	111,171	391,243	21,755	412,998
Total	<u>\$ 1,856,789</u>	<u>\$ 625,813</u>	<u>\$ 2,482,602</u>	<u>\$ 8,107,500</u>	<u>\$ 2,704,167</u>	<u>\$ 10,811,667</u>

The water supply and sewage disposal system revenue bonds were issued to finance the acquisition and construction of additions, extensions, and improvements to the City's water supply and sewage disposal system. Principal and interest on the bonds are payable solely from the revenue of the water and sewer system and from certain funds and accounts as established by the bond ordinance.

The revenue bond ordinance contains certain covenants and restrictions that, among other matters, relate to the following:

- Establishment of rates to customers of the system that, together with other system income, are reasonably expected to produce annual net revenue sufficient to provide for 125 percent of the annual debt service requirements on the bonds (135 percent in years when new debt is issued) and to provide for other expenditures of the system so long as any bonds are outstanding
- Periodic transfers of net revenue to a fund segregated for debt service payments so that the balance in the fund is equal to the lesser of the maximum annual debt service requirements on the bonds for any future year or 10 percent of the principal amounts on the bonds. Additionally, each month a portion of the next principal and interest payment on each revenue bond must be transferred to a separate fund segregated to pay the next debt service payment.
- Adoption of and adherence to budgeted expenses
- Segregation of Water and Sewer Fund revenue

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

- Segregation of assets for construction of improvements to the system
- Prohibited sale, lease, or other disposition of all or any substantial part of the system

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2005, \$4,975,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities
Unspent bond proceeds and related interest	\$ 474,848
Revenue bond restrictions - Debt payments	<u>823,221</u>
Total restricted assets	<u>\$ 1,298,069</u>

In addition, net assets have been restricted for \$823,221, which represents the annual debt service requirement, less the current portion of Water and Sewer Fund long-term debt.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims arising from the various risks noted above except for claims related to medical benefits. The City is partially uninsured for claims arising from medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 9 - Risk Management (Continued)

The City assumes claim costs for employees' health care claims within certain limits. The City has purchased excess insurance, both for specific occurrences in excess of \$55,000 per individual up to a maximum of \$945,000 per individual and for aggregate claims exceeding approximately \$1,496,000 occurring within the insurance policy period from November 1, 2005 through October 31, 2006. The sum of the City's aggregate loss funds (which represents the amount before which aggregate excess insurance will pay for any claims) less claims incurred through December 31, 2005 totals approximately \$1,208,000.

The City estimates the liability for health care claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2005	2004
Unpaid claims - Beginning of year	\$ 287,823	\$ 177,754
Incurred claims (including claims incurred but not reported)	1,720,445	1,553,720
Claim payments	(1,637,513)	(1,443,651)
Unpaid claims - End of year	<u>\$ 370,755</u>	<u>\$ 287,823</u>

Note 10 - Defined Benefit Pension Plan - Michigan Municipal Employees' Retirement System

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers certain general, police, and fire employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 10 - Defined Benefit Pension Plan - Michigan Municipal Employees' Retirement System (Continued)

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units. The City has assumed the responsibility to contribute an annual amount as determined by the actuary on behalf of general, police, and fire employees.

Annual Pension Cost - For the year ended December 31, 2005, the City's annual pension cost was \$793,698. The City contributed 100 percent of the annual pension cost as determined through an actuarial valuation as of December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 percent per year. Item (b) includes an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Trend information is as follows for the years ended December 31:

	2003	2004	2005
Annual pension costs (APC)	\$ 726,760	\$ 797,550	\$ 793,698
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial Valuation as of December 31			
	2002	2003	2004
Actuarial value of assets	\$ 12,361,618	\$ 13,572,308	\$ 14,700,396
Actuarial accrued liability (AAL) (entry age)	\$ 19,085,810	\$ 21,197,891	\$ 23,607,292
Unfunded AAL (UAAL)	\$ 6,724,192	\$ 7,625,583	\$ 8,906,896
Funded ratio	64.77%	64.03%	62.27%
Covered payroll	\$ 3,979,065	\$ 4,013,529	\$ 4,086,856
UAAL as a percentage of covered payroll	168.99%	190.00%	217.94%

Note 11 - Retirement Plan - Policemen and Firemen Retirement System I

Plan Description - The Policemen and Firemen Retirement System I is a single-employer defined benefit pension plan that is administered by the City of Melvindale Police and Fire Employees' Retirement System I. This plan covers policemen and firemen hired on or before April 6, 1965. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 28 retirees and beneficiaries currently receiving benefits. There are no longer any active employees who participate in the system. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by a court order. Until 1987, the system paid pensions that were currently payable and did not fund for future pension expense. As discussed in Note 15, beginning in 1987, the City's contributions have been based on amounts collected through a court-ordered levy. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended December 31, 2005, the City's annual pension cost was approximately \$1,520,300 for the plan. The employer contributions for the system were based on taxes collected through a court-ordered property tax levy. Significant actuarial assumptions used include (a) a 7.0 percent investment rate of return, and (b) an inflation rate of 3.0 percent. The actuarial value of assets was determined using the market value of the assets. The unfunded actuarial liability is being amortized by level dollar contributions over a period of six future years.

Reserves - As of December 31, 2005, all of the plan's assets are reserved for retired benefit payments. The fair value of the assets at December 31, 2005 is \$9,358,124.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2005

Note 11 - Retirement Plan - Policemen and Firemen Retirement System I (Continued)

Trend information is as follows for the years ended December 31:

	2003	2004	2005
Annual pension costs (APC)	\$ 1,232,730	\$ 1,365,165	\$ 1,520,300
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 12 - Subsequent Events

Tax Anticipation Notes - On January 4, 2006, the City issued \$2,000,000 of tax anticipation notes, bearing interest at 4.25 percent. The proceeds of the notes are to be used to finance operations of the City. The notes are to be repaid in September 2006 from collections of the July 1, 2006 property tax levy.

Note 13 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain full-time employees upon retirement, in accordance with labor contracts. Currently, 69 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment life insurance benefits are recognized as the insurance premiums become due.

Because the City is partially self-insured for health care, expenditures are recognized as claims are incurred and excess insurance premiums become due. The City has established a premium to reflect the monthly cost of claims to be charged to the Water and Sewer Fund in lieu of charging for actual claims. The Pension Fund is billed quarterly for actual claims incurred. During the year, the total cost to the City of these benefits was approximately \$744,000. Of this amount, the Policemen and Firemen Retirement System I was billed approximately \$216,000, the Water and Sewer Fund was billed approximately \$80,000, and the General Fund paid approximately \$448,000.

Note 14 - Joint Venture

The City is a member of the 24th District Court, which provides services to the City of Melvindale and the City of Allen Park. The City has a one-third interest in the 24th District Court.

The participating communities provide annual funding for its operations and receive a portion of fines and fees collected. During the current year, the City contributed approximately \$901,000 for its operations and received approximately \$1,203,000 in fines and forfeitures. The City has a nonmaterial equity interest in the 24th District Court at December 31, 2005. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments. Complete financial statements for the 24th District Court can be obtained from the administrative offices at 6515 Roosevelt Road, Allen Park, Michigan.

Note 15 - Pension Judgment Levy

In prior years, the City did not make contributions to the Policemen and Firemen Retirement System I as required by the Constitution of the State of Michigan. The City was sued by members of the system to require the City to begin funding the plan on an actuarial basis. In 1987, the court entered a judgment requiring the City to levy up to 10 mills per year on all taxable property within the City until the system has no unfunded liabilities as determined by an actuarial study. From 1987 through 2001, the City levied 10 mills for this purpose. During the year ended December 31, 2002, the Court approved an order reducing the levy to 7 mills. It is estimated that the amount remaining to be funded approximates \$984,000 at December 31, 2004, the date of the latest actuarial valuation.

Note 16 - Contingent Liabilities

The City has been named as a defendant in certain claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at December 31, 2005.

Note 17 - Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Required Supplemental Information

City of Melvindale, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original and Amended Budget	Actual	Variance with Amended Budget
Revenues and Other Sources			
Property tax	\$ 4,671,092	\$ 4,857,055	\$ 185,963
State of Michigan	1,803,253	1,785,761	(17,492)
Other	2,833,460	2,958,072	124,612
Total revenues and other sources	<u>\$ 9,307,805</u>	<u>\$ 9,600,888</u>	<u>\$ 293,083</u>
Expenditures and Other Uses			
Council	\$ 17,900	\$ 18,278	\$ (378)
District Court	900,000	900,563	(563)
Mayor	62,070	64,821	(2,751)
Controller	162,176	156,536	5,640
Election	7,740	3,759	3,981
Auditing	65,000	74,500	(9,500)
Corporation Counsel	177,000	236,985	(59,985)
City Clerk	118,328	114,584	3,744
Board of Review	2,100	2,250	(150)
Treasurer/Assessor	156,562	126,119	30,443
Data processing	35,000	55,863	(20,863)
Police	2,128,528	2,288,963	(160,435)
Fire	1,077,688	1,475,601	(397,913)
Mutual aid	12,500	11,887	613
Department of Public Works	568,356	501,558	66,798
Street lighting	175,000	197,146	(22,146)
Contributions to other funds	1,346,352	1,457,864	(111,512)
Refuse	516,500	569,216	(52,716)
Swimming pool	34,450	3,615	30,835
Senior citizens - Van program	65,000	61,465	3,535
Parks and recreation	68,575	62,311	6,264
Insurance	531,000	485,577	45,423
MERS	792,000	804,053	(12,053)
Miscellaneous	155,380	179,320	(23,940)
Contingency	107,600	(242,983)	350,583
TANA interest	25,000	21,608	3,392
Total expenditures and other uses	<u>\$ 9,307,805</u>	<u>\$ 9,631,459</u>	<u>\$ (323,654)</u>

City of Melvindale, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>Policemen and Firemen Retirement System I</u>						
12/31/99	6,342,996	11,778,189	5,435,193	53.85	*	*
12/31/00	7,368,583	11,446,127	4,077,544	64.38	*	*
12/31/01	7,970,981	10,796,790	2,825,809	73.83	*	*
12/31/02	7,986,209	10,407,175	2,420,966	76.74	*	*
12/31/03	8,426,290	9,930,898	1,504,608	84.85	*	*
12/31/04	8,836,939	9,820,748	983,809	90.00	*	*

* For valuations dated after December 31, 1996, the System consists entirely of retirees and beneficiaries.

Schedule of Employer Contributions December 31, 2005

Year Ended December 31	Annual Pension Costs	Percentage Contributed
2000	\$ 1,660,824	100.0
2001	1,719,593	100.0
2002	1,261,455	100.0
2003	1,232,730	100.0
2004	1,365,165	100.0
2005	1,520,300	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age
Amortization method	Level dollar
Amortization period	6 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	7.0%
Postretirement cost of living adjustments	3.0%

City of Melvindale, Michigan

Note to Required Supplemental Information

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers, proceeds from an installment loan, and reimbursements have been included in the “revenue” and/or “expenditure” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end. The annual budget is prepared by City management and adopted by the City Council; subsequent amendments are approved by the City Council.

The budget process is initiated in September, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the finance director, on or before November 1. During the month of November, the finance director and city administrator review the appropriation requests, meet with the departments and the mayor, and put together the budget. The budget is submitted to the City Council on or before December 1. During the next two weeks, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by a resolution no later than December 31.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City is the activity basis level.

The amount of encumbrances outstanding at December 31, 2005 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Following is a reconciliation of the budget statement of the General Fund and other major funds to the operating statement:

	Budget	Operating	Proceeds from Installment	Operating	
	Statement	Transfers	Loan	Reimbursement	Statement
General Fund - Total revenue	\$ 9,600,888	\$ -	\$ (215,365)	\$ (108,928)	\$ 9,276,595
General Fund - Total expenditures	9,631,459	(175,006)	-	(108,928)	9,347,525

City of Melvindale, Michigan

Note to Required Supplemental Information

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Melvindale, Michigan incurred expenditures that were significantly (over \$20,000) in excess of the amounts budgeted, as follows:

	Budget	Actual
Corporation counsel	\$ 177,000	\$ 236,985
Data processing	35,000	55,863
General Fund - Police	2,128,528	2,288,963
General Fund - Fire	1,077,688	1,475,601
Street lighting	175,000	197,146
Contributions to other funds	1,346,352	1,457,864
Refuse	516,500	569,216
Miscellaneous	155,380	179,320

Corporation counsel expenditures were larger than anticipated due to continued union negotiations. Expenditures for police and fire exceeded budget mainly as a result of an increase in the amount of overtime in the current year over what was anticipated. In addition, the City's fire department purchased a fire truck during the current year, which was not originally anticipated. The fire truck purchase was offset by revenue from an installment purchase obligation. Contributions to other funds exceeded budget due to health care insurance expense being greater than expected in the current year. The remaining variances, were the result of higher than anticipated expenditures in the current year.

Other Supplemental Information

City of Melvindale, Michigan

	Special Revenue Funds				
	Major Roads	Local Roads	Library	Drug Forfeiture	Community Development Block Grant
Assets					
Cash and investments	\$ 328,832	\$ 37,539	\$ 10,986	\$ 106,306	\$ 125,867
Taxes receivable	-	-	34,134	-	-
Due from other funds	-	41,399	229,349	-	-
Due from other governmental units	60,078	24,881	-	-	88,698
Total assets	<u>\$ 388,910</u>	<u>\$ 103,819</u>	<u>\$ 274,469</u>	<u>\$ 106,306</u>	<u>\$ 214,565</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 8,099	\$ 28,208	\$ 33,103	\$ 2,828	\$ 58,395
Accrued and other liabilities	-	-	1,150	-	-
Due to other funds	83,047	75,213	-	8,822	154,766
Accounts payable to component units	-	-	4,878	-	-
Deferred revenue	-	-	29,303	-	58,731
Total liabilities	91,146	103,421	68,434	11,650	271,892
Fund Balances (Deficit)					
Reserved	-	-	-	94,656	-
Unreserved	297,764	398	206,035	-	(57,327)
Total fund balances (deficit)	297,764	398	206,035	94,656	(57,327)
Total liabilities and fund balances (deficit)	<u>\$ 388,910</u>	<u>\$ 103,819</u>	<u>\$ 274,469</u>	<u>\$ 106,306</u>	<u>\$ 214,565</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005**

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 609,530
-	34,134
-	270,748
-	173,657
<u>\$ -</u>	<u>\$ 1,088,069</u>
\$ -	\$ 130,633
-	1,150
-	321,848
-	4,878
-	88,034
-	546,543
-	94,656
-	446,870
-	541,526
<u>\$ -</u>	<u>\$ 1,088,069</u>

City of Melvindale, Michigan

	Special Revenue Funds				
	Major Roads	Local Roads	Library	Drug Forfeiture	Community Development Block Grant
Revenue					
Property taxes	\$ -	\$ -	\$ 199,592	\$ -	\$ -
Federal grants			-	-	345,639
State sources	390,710	161,886	-	-	-
Interest income	6,066	400	580	1,358	-
Other	-	-	-	137,604	-
Total revenue	396,776	162,286	200,172	138,962	345,639
Expenditures					
Current:					
Community maintenance and development	-	-	-	-	264,017
Public safety			-	101,180	-
Public works	156,478	289,888	-	-	-
Recreation and cultural	-	-	220,274	-	-
Debt service	-	-	-	-	-
Total expenditures	156,478	289,888	220,274	101,180	264,017
Excess of Revenue Over (Under)					
Expenditures	240,298	(127,602)	(20,102)	37,782	81,622
Other Financing Sources (Uses)					
Transfers in	-	128,000	-	-	-
Transfers out	(97,690)	-	-	-	(78,760)
Total other financing sources (uses)	(97,690)	128,000	-	-	(78,760)
Net Change in Fund Balances	142,608	398	(20,102)	37,782	2,862
Fund Balances (Deficit) - Beginning of year	155,156	-	226,137	56,874	(60,189)
Fund Balances (Deficit) - End of year	\$ 297,764	\$ 398	\$ 206,035	\$ 94,656	\$ (57,327)

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended December 31, 2005

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 199,592
-	345,639
-	552,596
-	8,404
-	137,604
-	1,243,835
-	264,017
-	101,180
-	446,366
-	220,274
223,456	223,456
223,456	1,255,293
(223,456)	(11,458)
223,456	351,456
-	(176,450)
223,456	175,006
-	163,548
-	377,978
\$ -	\$ 541,526

City of Melvindale, Michigan

**Federal Awards
Supplemental Information
December 31, 2005**

City of Melvindale, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

We have audited the basic financial statements of the City of Melvindale, Michigan for the year ended December 31, 2005 and have issued our report thereon dated April 28, 2006. Those basic financial statements are the responsibility of the management of the City of Melvindale, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Melvindale, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 28, 2006

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

We have audited the financial statements of the City of Melvindale, Michigan as of and for the year ended December 31, 2005 and have issued our report thereon dated April 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Melvindale, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to the management of the City of Melvindale, Michigan in a separate letter dated April 28, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Melvindale, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, except for the material excess of public safety expenditures over budget. The amount has been disclosed in the basic financial statements.

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

April 28, 2006

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

Compliance

We have audited the compliance of the City of Melvindale, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The major federal programs of the City of Melvindale, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Melvindale, Michigan's management. Our responsibility is to express an opinion on the City of Melvindale, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Melvindale, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Melvindale, Michigan's compliance with those requirements.

In our opinion, the City of Melvindale, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

Internal Control Over Compliance

The management of the City of Melvindale, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Melvindale, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

April 28, 2006

City of Melvindale, Michigan

Schedule of Expenditures of Federal Awards Year Ended December 31, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures	Award Amount
U.S. Department of Housing and Urban Development:				
Community Development Block Grant passed through Wayne County, Michigan:				
Program Year 2002	14.218	B-02-UC-26-0003	\$ 32,206	\$318,000
Program Year 2003	14.218	B-03-UC-26-0003	62,701	231,000
Program Year 2004	14.218	B-04-UC-26-0003	143,418	238,000
Program Year 2005	14.218	B-05-UC-26-0003	<u>104,452</u>	217,000
Total Community Development Block Grant			342,777	
Public Housing Capital Fund MI28P048501-02	14.872	N/A	38,188	247,089
Public Housing Capital Fund MI28P048501-03	14.872	N/A	102,649	191,832
Public Housing Capital Fund MI28P048502-03	14.872	N/A	28,351	40,517
Public Housing Capital Fund MI28P048501-04	14.872	N/A	<u>565</u>	235,442
Total Public Housing Capital Fund			169,753	
ROSS Resident Service Delivery Model Grant	14.870	RSE-MII048-13022	31,361	100,000
Performance Funding - Public Operating Subsidy	14.850	N/A	307,374	307,374
Section 8 - Low-income Housing Assistance Voucher Program	14.871	N/A	<u>846,487</u>	846,487
Total U.S. Department of Housing and Urban Development			1,697,752	
U.S. Department of Justice:				
Community Oriented Policing Services (COPS) Grant Passed through Downriver Community Conference 2003CKWX0298	16.710	N/A	10,472	23,078
Stop Trafficking on Public Streets (STOPS) Grant Passed through the State of Michigan	16.592	ODCP# 83038-1-04L	<u>8,245</u>	
Total U.S. Department of Transportation			<u>18,717</u>	
Total federal expenditures			<u>\$ 1,716,469</u>	

City of Melvindale, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended December 31, 2005

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,700,614
Less Community Development Block Grant revenue not received within 60 days in prior year and received in current year	(60,284)
Add Community Development Block Grant revenue and Stop Trafficking on Public Streets revenue not received within 60 days in the current year	65,667
Add Coalition of Public Safety revenue received in prior year and spent in the current year	<u>10,472</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 1,716,469</u></u>

City of Melvindale, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Melvindale, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 30,685

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs Year Ended December 31, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant
14.871	Section 8 - Low-income Housing Assistance Voucher Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

April 28, 2006

Honorable Mayor and Members
of the City Council
City of Melvindale
3100 Oakwood Boulevard
Melvindale, MI 48122

Dear Council Members:

We have recently completed the audit of the financial statements of the City of Melvindale for the year ended December 31, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

FINANCIAL RESULTS

For the year ended December 31, 2005 the City's General Fund experienced a loss of approximately \$31,000, which served to increase the fund deficit to approximately \$841,000. The General Fund loss in the current year was significantly less than the loss experienced in 2004, which amounted to approximately \$899,000. This was a result of an increase in General Fund revenues of approximately \$620,000 and a decrease in expenditures of approximately \$307,000. The increase in revenue can be attributed to an increase in taxable values, as well as the outsourcing of the ambulance billings collection process. The decrease in the General Fund expenditures is a result of a City-wide effort made to reduce overall expenditures, as well as a reversal of the judgment associated with the utility personal property tax multiplier case of approximately \$243,000, which was settled in the current year. Although overall General Fund expenditures decreased, public safety costs increased by approximately \$286,000, primarily related to overtime and a large capital purchase in the current year. Additionally, in the required supplemental information section of the financial statements, there is a comparison of actual results to budgeted amounts. These variances are technically instances of noncompliance with the State of Michigan Budget Act.

The City was required to submit a deficit elimination plan for the General Fund last year. In all likelihood, the City will be required to update the plan going forward, as the General Fund remains in deficit. We are aware that the City created a task force in 2005 to examine alternatives to eliminate the deficit and examine the overall structure of the City's budget going forward. We would encourage the task force to continue to work with the administration, department heads, Council members and outside advisors to identify ways to defray costs and increase revenues. The task force faces significant challenges related to internal and external financial challenges and pressures that we have previously discussed with the City. Some of these issues include: decreases in state shared revenue, restricted property tax revenue related to Proposal A and the Headlee Amendment, limited ability to add new development to the City's

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FINANCIAL RESULTS (CONTINUED)

tax base, significant capital needs that the City cannot afford to fund, and a lack of reserve in other funds to help offset the deficit in periods where unplanned expenditures are incurred. Despite a successful Headlee override vote several years ago, the interaction of the Headlee Amendment and Proposal A have caused the rollback of the City's operating millage rates again.

In light of the developments noted above, the City must continue to use its daily cash flow analysis tools to manage cash flow and we encourage the City to exercise strong expenditure controls within all departments, continue to examine its allocation of program costs, and (as part of the task force that has been organized) critically examine current service levels. The City will need to closely monitor its 2006 budget and make any amendments that are necessary as circumstances change. As the task force continues its work, the City should examine its financial condition and financial plan (from both an operational and capital perspective) over a multi-year period to determine how the General Fund deficit will be eliminated.

STATE SHARED REVENUE

The Governor's budget for the State of Michigan's fiscal year 2005-2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004-2005 funding level. In essence, no further reductions to revenue sharing below the current year 2004-2005 funding level were adopted. However, as in past periods this could equate to increases in constitutional receipts and actual decreases in the statutory component. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state shared revenue payments for fiscal years 2004-2005 and 2005-2006. The appropriation in the State's budget for revenue sharing payments is more than \$500 million less annually than amounts provided for in law based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and, as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

State shared revenue accounts for approximately 19% of the City's total General Fund revenue. The following table details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

STATE SHARED REVENUE (CONTINUED)

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$1,455,721	\$760,302	\$2,216,023	\$-
2001	\$1,495,976	\$696,618	\$2,192,594	\$23,429 (1.1%)
2002	\$1,357,058	\$703,712	\$2,060,770	\$153,253 (6.9%)
2003	\$1,207,279	\$715,627	\$1,922,906	\$293,117 (13.2%)
2004	\$1,020,362	\$707,855	\$1,728,217	\$487,806 (22.0%)
2005	\$984,633	\$724,746	\$1,709,379	\$506,644 (22.9%)

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$985,000 at risk in its General Fund budget based on 2005 funding levels. The statutory formula does sunset in 2007. Action by the Legislature is required to renew or continue this funding source. We will continue to update the City as developments occur.

WATER AND SEWER FUND

The bond ordinance related to the water and sewer revenue bond issues stipulates that the City will establish water and sewer rates on an annual basis that are reasonably expected to yield net revenues that will equal or exceed 125% of the aggregate debt service requirements for the forthcoming 12 month period (135% in years where the City plans to issue debt). While this is a prospective test (i.e. based on adopted budget), it is important that the City's actual results meet the covenant requirements. In recent years, the City's actual debt service coverage ratio was significantly less than 125%. To address this issue, the City increased its rates in November 2005. Since the implementation of the new rate structure did not take effect until the end of 2005, the benefits of the rate increase will have more of an impact on the revenue bond covenant in 2006. We encourage the City to continue to monitor this issue in the future.

The City has not yet spent all the proceeds related to the 2001 water bond issue. The agreement required the City to spend 85% of the proceeds within three years of issuance. The remaining proceeds at December 31, 2005 are approximately \$439,843. The City has consulted with its bond counsel to review these requirements, assess compliance, and determine proper course of action related to the proceeds. Management expects bond proceeds to be completely spent by July 2006.

WATER AND SEWER FUND (CONTINUED)

During the year, we noted that the City's water loss was approximately 14 percent, which is higher than expected as compared to other communities and the City's water loss for 2004. We recommend that the City investigate the possible reasons for the large percentage and take corrective action as necessary. In addition, the working capital in the Water and Sewer Fund has been reduced to approximately \$23,000. As a result of the November 2005 rate increase, the cash and working capital position of the Water and Sewer Fund should begin to improve. The November 2005 rate adjustment should also allow the City to restore all monies to the bond reserve account as required by the ordinance. We recommend the City perform a thorough review of its infrastructure needs and develop a comprehensive cost of service study and long-term rate plan to ensure the working capital levels are replenished and available for necessary operating reserves.

ICE ARENA FUND

The City has had several longer term borrowings from the General Fund and the Water and Sewer Fund to the Ice Arena Fund. The Ice Arena is attempting to repay these obligations when excess operating cash flow exists. Amounts are budgeted for repayment but the operating results of the Arena have not returned to the level of several years ago. In fact, the arena revenue decreased by approximately \$140,000 in 2005 and is down approximately \$194,000 from 2003. We encourage the City to continue to analyze the financial results of this operation and consider its options to improve operating results.

INTERFUND RECEIVABLES AND PAYABLES

The City has several funds that are used to record the many activities that the City is involved in (for example, the General Fund, the Water Fund, the Major Street Fund, etc.). Through the course of normal operations, "interfund" receivables and payables are created between the various funds. We have worked with the City in the past few years and would like to commend the City on its hard work in implementing a process that reconciles and settles the amount of receivables and payables between funds on a monthly basis if possible. We noted at December 31, 2005 several additional interfunds that could be settled, and have made management aware of these accounts.

HEALTH CARE COSTS

As we have discussed in the past, health care costs continue to rise in both the public and private sector. During the current year, the City and the Pension Board of the City's Policemen and Firemen Retirement System jointly established a health care reserve in the self-insurance fund to cover future health care costs of its members. The balance of the reserve account at December 31, 2005 was approximately \$700,000. The reserve will be reduced through actual costs incurred for Pension 1 retiree health care, and based on the overall experience of the self-insurance fund, which has varied widely from year-to-year. The City's total costs for health care were \$1,720,445 in 2005 compared to \$1,553,720 in 2004 and \$1,108,639 in 2003. Additionally, we recommend that the City consider confirming eligibility with the members of the Policemen and Firemen Retirement System in order to ensure benefit payments are proper.

HEALTH CARE COSTS (CONTINUED)

As mentioned last year, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. This pronouncement will also impact the reporting of the retiree health care liability within the City's Policemen and Firemen Retirement System. The new pronouncement is effective for the City for the year ended December 31, 2008. We encourage the City to engage an actuary to value this liability so that the City can begin to determine if it can afford to actuarially fund this liability based on its current budget situation.

BUILDING FEES

The City oversees building construction, in accordance with the State's Construction Code Act. The City charges fees for this oversight function. State law does limit the nature of costs eligible to be used in determining these fees. At December 31, 2005, the City had a cumulative shortfall of approximately \$441,000 related to oversight expenses higher than revenue. We encourage the City to review its fee structure related to the State Construction Code services and ensure they are at appropriate levels to cover the related costs.

FUND DEFICITS

In addition to the General Fund deficit at December 31, 2005, the City's Community Development Block Grant Fund and Ice Arena Fund were in a deficit. The deficit in the Community Development Block Grant Fund was primarily due to the timing of reimbursement receipts from the County related to the Community Development Block Grant program. The State may require the City to file deficit elimination plans regarding these funds.

PENSION SYSTEM MATTERS

The Pension Board governs the investment choices of the Policemen and Firemen Retirement System. The investment return in 2005 was slightly less than anticipated given the overall increase in market performance. As the City relies on the performance of these funds to help defray the costs of retiree health care, we recommend the Pension Board periodically review its portfolio and reevaluate whether the assets included are providing the maximum benefit for the related risk to the System. In addition, as a portion of the investments within the Fund are comprised of life insurance policies, we recommend the City consider confirming the status of the membership and eligibility to continue to receive benefits on an annual basis.

TRANSPORTATION FUNDS

The State is now expecting lower than anticipated Act 51 receipts for the State's 2005/2006 fiscal year which ends September 30, 2006. The Michigan Department of Transportation reported that receipts are expected to be 2.5% less than originally budgeted. In addition, the State has indicated that local governments should anticipate fiscal year 2006/2007 revenues to be approximately what was originally budgeted in 2006. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections could impact the City's fiscal year 2006 and 2007 budgets. Given the potential decline in revenues, we encourage the City to review its alternative revenue sources for the street funds to ensure necessary funding is available.

The City's Major Streets Fund has fund balance of \$297,764 at December 31, 2005. The use of these monies is restricted by law, but we encourage the City to determine that it is allocating all costs appropriately between the Major and Local Street Funds and that administrative costs incurred by the City are being charged to the extent allowed by the State. As you are aware, subject to certain restrictions and with the approval of the City Council, the City is allowed to transfer additional monies from the Major Street Fund to the Local Street Fund (which did not occur in 2005). It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Also, there currently is legislation proposed that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the Governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as Federal match monies on local road projects. The program requires legislation before it becomes effective.

INTERNAL CONTROL CONSIDERATIONS

This year was the second year that we, as your City's auditors, were required to adhere to the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. SAS 99 requires additional procedures to be performed during the audit engagement. As a result, several of the comments below resulted directly from the additional procedures applied through SAS 99.

Remote Locations – It is our understanding that cash is currently being collected at several remote locations throughout the City, including the Fire Department, Police Department, Ice Arena, Senior Center/Community Events Center and Library. We recommend that the City perform periodic reviews of the policies and procedures in place at these locations in order to ensure there are sufficient internal controls surrounding the cash collection process.

INTERNAL CONTROL CONSIDERATIONS (CONTINUED)

Account Reconciliations – While we commend the City on improving the timing of its reconciliation process for several accounts from an annual basis to a monthly basis, there was an extended period of time where the water and sewer receivable reconciliations were not being performed. In addition, we noted several accounts in various funds with receivable/payable balances where detail listings are not being maintained and reconciled to the general ledger, including various escrow and tax collection accounts. We have reviewed these matters with the City's new Finance Director and understand that these items are scheduled to be addressed in 2006.

Wire Transfers – During our audit, we noted that wire transfers and the posting of journal entries are performed by the same two individuals. We recommend that an independent individual review these transactions occasionally in order to ensure they are proper.

Sick and Vacation Reporting – During our review of the internal controls in place surrounding the reporting of sick and vacation time, we noted that sick and vacation hours for certain employees are maintained at the department level instead of by the payroll department. We suggest that one individual (ideally in payroll) be responsible for tracking sick and vacation time taken in order to ensure pay outs for unused time are properly recorded.

Daily Cash Receipt Reporting – We recommend that the Treasurer or Finance Director periodically review the daily cash summary reports generated by the Treasurer's Office as an additional internal control over the City's cash reporting.

LEGISLATIVE AND OTHER MATTERS

Local Government Task Force – In 2005, the Governor created a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. While their report was originally due by November 30, 2005, a report from this group is expected in 2006. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources). We will update the City as developments occur.

Personal Property Tax Multipliers – As discussed above, the City recorded a liability in 2004 in the amount of approximately \$243,000 in the General Fund, \$11,000 in the Library Fund, and \$75,000 in the Policemen and Firemen Retirement System Fund as a potential refund, including interest, for the lawsuit in effect related to the personal property tax tables for certain utility companies. During 2006, the lawsuit was settled, resulting in no need to refund the personal property taxes related to the case from 1997 to 2004 as long as the City uses the approved State Tax Commission multipliers for 2007, 2008, 2009. As a result, in 2005, the amounts originally recorded in 2004 have been removed as liabilities from their respective funds.

LEGISLATIVE AND OTHER MATTERS (CONTINUED)

Telecommunications Act - Changes were made by the Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the Federal and State level to restrict or eliminate the ability of local governments to regulate and franchise cable television, which would impact franchise fees received by local governments. We encourage the City to monitor their developments closely given the impact that a reduction in cable franchise fees could have on the City's budget.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. The City's new Finance Director completed a number of schedules, account reconciliations, and journal entries not prepared in the past. As a result, the City's preparation for this year's audit was significantly improved. We compliment the City for its efforts in this area and for the improvement made in its financial reporting. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

PLANTE & MORAN, PLLC

Frank W. Audia

A handwritten signature in black ink, appearing to read "Stacey Reeves", with a stylized flourish at the end.

Stacey L. Reeves